

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SSO-00 NSCE-00

INRE-00 USIE-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 XMB-04 OPIC-06 SP-02 CIEP-02 LAB-04

SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-02

PA-02 PRS-01 AGR-10 EURE-00 /128 W

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O R 181607Z AUG 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4656

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

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USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

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DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 12 - 18

SUMMARY: REAL GDP HAS INCREASED FOR THREE CONSECUTIVE

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QTRS. FOLLOWING A RISE OF 0.75 PERCENT IN THE SECOND

QUARTER. DURING THE FIRST HALF OF 1976. OUTPUT BASED GDP GREW AT AN ANNUAL RATE OF 3.5 PERCENT WITH THE MAIN IMPETUS COMING FROM EXPORTS AND INVENTORY ACCUMULATION. THE RATE OF INFLATION CONTINUES TO DECREASE WITH A RISE IN RETAIL PRICES OF ONLY 0.2 PERCENT IN JULY. THIS BRINGS THE RPI TO A LEVEL OF 12.9 PERCENT OVER A YEAR AGO WITH THE LAST THREE MONTHS SHOWING AN ANNUAL RATE OF INCREASE OF 7.3 PERCENT. RETAIL SALES REMAIN RELATIVELY FLAT DESPITE A 1.8 PERCENT RISE IN JULY. THE JULY INCREASE WAS HEAVILY INFLUENCED BY MID-SUMMER "SALES" PLUS RECORD TOURIST SPENDING. THE CURRENT ACCOUNT DEFICIT WIDENED TO 394 MILLION POUNDS IN JULY, A 160 MILLION POUND DETERIORATION OVER JUNE. THE IMPORT VOLUME ROSE SHARPLY WITH THE DELIVERY OF NORTH SEA OIL RELATED EQUIPMENT AND FOREIGN BUILT SHIPS. END SUMMARY.

1. GDP RISES DURING SECOND QUARTER. ACCORDING TO THE FIRST PRELIMINARY ESTIMATE, OUTPUT BASED GROSS DOMESTIC PRODUCT INCREASED BY 0.75 PERCENT DURING THE SECOND QUARTER. THE GDP INDEX (1970 EQUALS 100) STOOD AT 109.3 COMPARED WITH 108.5 IN THE FIRST QUARTER. THE SECOND QUARTER INCREASE WAS LOWER THAN THE 1.0 PERCENT RISE REGISTERED DURING THE FIRST QUARTER, LARGELY DUE TO THE JUNE DECLINE IN INDUSTRIAL PRODUCTION WHICH ACCOUNTS FOR 44 PERCENT OF THE INDEX. DURING THE FIRST HALF OF 1976, OUTPUT BASED GDP GREW AT AN ANNUAL RATE OF 3.5 PERCENT COMPARED WITH AN ANNUAL RATE OF INCREASE OF 0.2 PERCENT DURING THE SECOND HALF OF 1975. DURING THE 12 MONTHS ENDING IN JUNE 1976. REAL GDP INCREASED BY 1.9 PERCENT. GDP HAS NOW RISEN FOR THREE CONSECUTIVE QUARTERS. HOWEVER, THE RECOVERY HAS BEEN HESITANT WITH THE MAIN IMPETUS COMING FROM NET EXPORTS AND THE SWING IN INVENTORIES. WITH A FIRM POLICY DECISION TO HOLD THE LID ON PERSONAL INCOMES AND PUBLIC SPENDING, THE SUCCESS OF THE RECOVERY WILL DEPEND ON CONTINUING A STRONG EXPORT PERFORMANCE AND A SUBSTANTIAL REVIVAL IN MANUFACTURING INVESTMENT DURING THE REST OF 1976. THE LATEST TRADE FIGURES RAISE SOME DOUBT ABOUT THE STRENGTH OF EXPORTS AND THE ONLY INDICATION OF RISING INVESTMENT TO DATE IS IN THE SURVEYS OF BUSINESS INTENTIONS RATHER THAN IN ACTUAL CAPITAL SPENDING.

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ING.

2. CURRENT ACCOUNT. IN JULY. THE U.K. CURRENT ACCOUNT IS ESTIMATED TO HAVE BEEN IN DEFICIT BY 394 MILLION POUNDS, A DETERIORATION OF 160 MILLION POUNDS OVER THE JUNE LEVEL. THE VISIBLE TRADE DEFICIT WAS 524 MILLION POUNDS WITH THE BALANCE ON SERVICES AND OTHER CURRENT TRANSACTIONS CONTINUING TO SHOW A SURPLUS OF 130 MILLION POUNDS. DURING JULY IMPORTS RELATED TO NORTH SEA OIL DE-

VELOPMENT AMOUNTED TO 110 MILLION POUNDS AND FOREIGN BUILT SHIPS FOR BRITISH OWNERS TOTALLED 40 MILLION. BOTH OF THESE ITEMS, CONSIDERED "ONE TIME" IMPORTS, COMBINED WITH AN "ERRATICALLY" HIGH VOLUME OF PETROLEUM IMPORTS DURING THE MONTH SHOULD NOT BE VIEWED AS A CHANGE IN THE TREND. SEE LONDON 12777 FOR DETAILS AND TABLES.

3. RETAIL PRICES. IN JULY. THE INDEX OF RETAIL PRICES (JAN. 1974 EQUALS 100) SHOWED THE SMALLEST INCREASE IN OVER TWO YEARS. RISING BY JUST 0.2 PERCENT TO 156.3 FROM A LEVEL OF 156.0 IN JUNE, THE INDEX NOW STANDS 12.9 PERCENT ABOVE ITS LEVEL OF A YEAR AGO. THE JULY FIGURE CONTINUES THE DRAMATIC REDUCTION IN THE RATE OF INFLATION,

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INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SSO-00 NSCE-00

INRE-00 USIE-00 SP-02 AID-05 EB-07 NSC-05 CIEP-02

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PA-02 PRS-01 AGR-10 EURE-00 /128 W

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O R 181607Z AUG 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4657

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

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OVER THE LAST THREE MONTHS RETAIL PRICES HAVE RISEN AT AN ANNUAL RATE OF 7.3 PERCENT. HOWEVER, IT IS VERY UNLIKELY THAT THIS RATE WILL BE SUSTAINED OVER THE REMAINING MONTHS OF 1976. FALLS IN SEASONAL FOOD PRICES WHICH CONTRIBUTED TO THE JULY FIGURE WILL GIVE WAY TO RISING FOOD PRICES AS THE IMPACT OF THE WORSENING DROUGHT MAKES ITS SELF FELT. HIGHER PRICES WILL ALSO FIND THEIR WAY UNCLASSIFIED

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INTO THE INDEX AS A RESULT OF THE DEVALUATION OF STERLING LAST SPRING. ANY SUBSTANTIAL IMPROVEMENT FROM CURRENT RATES OF INFLATION WILL NOT COME BEFORE EARLY 1977.

4. RETAIL SALES. RETAIL SALES ROSE SLIGHTLY IN JULY. THE INDEX OF RETAIL SALES VOLUME (1971 EQUALS 100) WAS PROVISIONALLY ESTIMATED AT 108.0 IN JULY, A RISE OF 1.8 PERCENT FROM THE JUNE LEVEL OF 106.1. THE JULY INDEX WAS INFLUENCED BY END OF SEASON CLEARANCE SALES PLUS SPENDING BY A RECORD INFLUX OF TOURISTS. DESPITE THE JULY INCREASE, RETAIL SALES VOLUME HAS REMAINED ESSENTIALLY FLAT WITH THE INDEX DECLINING BY 0.4 PERCENT DURING THE THREE MONTHS THROUGH JULY COMPARED WITH THE PREVIOUS THREE-MONTH PERIOD. THE INDEX NOW STANDS 2.5 PERCENT HIGHER THAN IT DID A YEAR AGO AND CONTINUES TO REFLECT THE SLACK IN CONSUMER DEMAND WHICH UNDERLIES BUSINESS SURVEY DATA CITING WEAK DEMAND AS THE MAIN FACTOR AFFECTING CURRENT OUTPUT LEVELS.

5. EXCHANGE RATE AND GOLD

DATE	EFFECTIVE EXCHANGE RATE (\$)	DEPRECIATION (PERCENT)	GOLD
8/11	1.7900	38.6	\$113-5/8
8/12	1.7855	38.6	\$113-3/8
8/13	1.7815	38.9	\$113-3/8
8/16	1.7815	39.1	\$113-1/8
8/17	1.7865	39.1	\$111-7/8

CHANGE 8/10-8/17 DN 0.0035 WIDENED 0.6 DN \$1.50

6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
8/11	1.20	3.38	6.35

8/12	1.20	3.35	6.35
8/13	1.25	3.45	6.49
8/16	1.28	3.43	6.45
8/17	1.12	3.21	6.37

CHANGE 8-10-8/17 DN 0.10 DN 0.07 UP 0.02
(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES

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DATE	1 MONTH	3 MONTHS	6 MONTHS
8/11	5-1/4	5-5/8	6-1/4
8/12	5-3/8	5-7/8	6-1/4
8/13	5-5/8	5-3/4	6-1/4
8/16	5-3/8	5-3/4	6-1/4
8/17	5-3/8	5-3/4	6-1/8

CHANGE 8/10-8/17 UNCHANGED DN 1/8 DN 1/8

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PA-02 PRS-01 AGR-10 EURE-00 /128 W

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O R 181607Z AUG 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4658

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
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8. THREE-MONTH LONDON INTERBANK EURODOLLAR INTEREST
RATE DIFFERENTIAL

DATE

8/11	5-13/32
8/12	5-3/16
8/13	5-3/8

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8/16	5-13/32
8/17	5-5/16

9. STERLING CERTIFICATES OF DEPOSIT

DATE 1 MONTH 3 MONTHS 6 MONTHS

8/11	10-25/32	11-1/16	11-5/16
8/12	10-13/16	11-1/16	11-5/16
8/13	10-27/32	11-1/16	11-11/32
8/16	10-27/32	11-1/8	11-3/8
8/17	10-7/8	11-1/16	11-13/32

CHANGE 8/10-8/17 UNCHANGED UNCHANGED UP 3/32

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT
11.1/2 PERCENT ON FRIDAY, AUGUST 13. AS THE TREASURY BILL
MILLION POUNDS OF BILLS OFFERED ATTRACTED BIDS OF
1,066.745 MILLION POUNDS

ARMSTRONG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC DEVELOPMENT, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 18 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON12963
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760316-1367
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760843/aaaabkyr.tel
Line Count: 324
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 21 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 APR 2004 by ReddocGW>; APPROVED <10 DEC 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD AUGUST 12 - 18 SUMMARY: REAL GDP HAS INCREASED FOR THREE CONSECUTIVE
UNCLASSIFIED
TAGS: ECON, UK
To: TRSY
STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006